Annual Report 1971

CONSOLIDATED COMPUTER INC.

(formerly Consolidated Computer Limited)

Message to Shareholders

1971 was a very difficult year for Consolidated Computer. The Company came very close to the point of total collapse. This disaster was avoided only by the fact that so many people recognized the bright future in store for the Company if a satisfactory reorganization could be implemented.

Financial problems reached a point where the Company became insolvent. This was the result of difficulties which culminated in the withdrawal of a stock issue scheduled for offering in the United States. The issue would have provided the necessary funds for the Company to maintain certain financial ratios required by its various financing agencies. When the funds were not forthcoming, credit was withdrawn and it was impossible to finance the large backlog of orders that had accumulated for KEY-EDIT systems.

Despite this financial failure, the Company had a remarkable record of positive achievements during the year. At the midpoint in June, the Company had already delivered more than $6 million worth of KEY-EDIT systems, and had received orders valued at more than $10 million for delivery in the latter half of 1971. New software packages had been introduced for the KEY-EDIT system. A major change in hardware design had been completed and the new hardware was being successfully manufactured. Orders were flowing from our subsidiary companies in the United States, Germany and England, and the marketing costs which the Company had invested to start up in these markets were paying off in sales results at a steadily increasing rate.

The KEY-EDIT product success established the Company's ability to develop a product, manufacture it reliably and provide first class systems engineering and field service support to its customers. These are the factors that inspired the key people in the government, the financial community and the Company itself to work out the plan of reorganization which could provide the foundation for a successful and profitable future for the Company.

As the first step towards reorganization, the Company filed a proposal to its creditors under the Bankruptcy Act early in November. The proposal nominated the Clarkson Company as trustee of the Company and on November 3rd the Supreme Court of Ontario granted a Court Order appointing Clarkson's as Interim Receiver. The plan of reorganization was developed during the next two months. It was approved by the unsecured creditors at a meeting in January 1972 and in February it was approved by the debentureholders, secured creditors and shareholders of the Company. A Court Order confirming the approvals was granted on March 16th by the Supreme Court of Ontario thereby terminating the interim receivership. The reorganization became effective on March 28th.

The plan of reorganization is described in detail in an Information Circular dated January 26th, 1972. The financial statements and accompanying notes in this Annual Report do not repeat these details but are designed to reflect the results of the reorganization and to provide a well defined landmark for our future financial reporting.

As part of the reorganization the name of the Company was changed to Consolidated Computer Inc., to clearly identify the reorganized Company. The Company sold the assets of its United Kingdom subsidiary and the shares of its German subsidiary to International Computers Limited. In addition to arranging for the sale of

its business overseas, the Company negotiated a firm agreement with International Computers Limited for the sale of a minimum of $7 Million of KEY-EDIT systems between February 1972 and March 1973. At the present time our Ottawa factory is producing approximately ten systems per month and delivering them to ICL under this agreement.

ICL has been involved in the marketing of data entry equipment and systems much longer than most of the major computer companies. They have a long and successful history in the design and manufacture of key punches and for the past several years they have been providing key-to-tape equipment for their customers. They are the only large computer manufacturer that has consistently provided its customers with the latest in data preparation equipment: the first generation keypunch equipment, the second generation key-to-tape equipment and now the third generation key-to-disk systems as typified by the KEY-EDIT systems. It was therefore with much optimism for the future that we concluded the arrangements with them.

It was gratifying to know that practically all of our former employees in England and Germany would join ICL and continue marketing and supporting KEY-EDIT systems. This means that there will be approximately the same number of employees involved in the marketplace with KEY-EDIT in Europe as there were when Consolidated and ICL were both active. We expect that the combined organization will yield better marketing results and better service for users of KEY-EDIT systems in the United Kingdom and Germany.

New operating capital for the Company was an important element in the plan of reorganization. Two million dollars was provided with the assistance of guarantees by agencies of the Federal and Ontario Governments: The General Adjustment Assistance Board at the Federal level, and the Ontario Development Corporation at the Provincial level. Both Governments acted in the belief that the computer industry is of vital importance to Canada's economic future and that Consolidated Computer, the largest Canadian owned computer company, had an important role to play in this industry.

In North America we sold our Timesharing Service Bureau operations. We carefully reduced the size of our KEY-EDIT operating staff primarily by terminating our marketing activities in cities where we had achieved only marginal success. The net effect of the sale of the foreign operations and the North American staff reductions was to reduce the staff level from approximately 480 employees at the end of 1971 to a present level of approximately 230 employees.

As a result of the reorganization, the Company now owns all of its North American equipment. Consequently, all revenues from its customer leases flow directly to the Company thereby generating a good cash flow. In addition to our production for ICL, we are manufacturing equipment in our Ottawa plant to fill orders from our present Canadian and American customers. The installation of this equipment has had the effect of increasing our North American monthly rental revenues by 18% between January and April 1972, and we expect that in 1972 we will receive approximately $3.3 Million from this source. Because of the importance of this revenue base and the possibilities of expanding on it, the Company has retained its service and customer support organization to look after its customers.

We continue to maintain an aggressive product development programme. The Company has approximately 75 employees who are involved solely in basic product development. We are continuing to develop new features for to-day's KEY-EDIT system and we hope to have some exciting announcements later in the year

of other new products related to the data entry marketplace. The data entry or data collection segment of the computer industry continues to be one of the fastest growing parts of the industry, and we believe we can continue to provide excellent new products with enhanced performance advantages for our customers.

We have substantially reduced the marketing effort that we had previously directed towards obtaining new customers. This is a temporary measure designed to allow the Company to begin operating again without the added burden of handling major new lease financing commitments. However, you will appreciate the fact that we have retained marketing and service personnel who continue to provide first class service and advice for our customers. They are also accepting orders from selected new customers in cities where we can provide first class service.

It is our intention to become more aggressive in the North American market later this year. Management is developing new marketing plans at the present time which will be described and published when meaningful information is available.

In summary, the KEY-EDIT system has been well accepted in the marketplace. As a result of our efforts and those of ICL, the system is being used in 13 different countries of the world at the present time, and our customer acceptance of this type of product remains excellent. However, it was a difficult year for employees and others associated with the Company. We are very fortunate that the key employees whom we require to implement our new operating plan have remained with us. This is true in Development, Manufacturing, Finance, Marketing and Field Service. Our customers have remained with us too and they continue to express satisfaction with the reliability and performance advantages offered by KEY-EDIT.

The plan of reorganization has provided your Company with a good financial foundation for the future. There are many challenges ahead of us. However, we are in an exciting, fast growing industry where careful planning can produce profitable results. Having established a new financial foundation, our objective now is to capitalize on the product and employee capabilities that have given your Company its fine reputation in the computer marketplace.

W. G. Hutton

May, 1972

President

CONSOLIDATED COMPUTER LIMITED

(Now Consolidated Computer Inc.)

CONSOLIDATED FINANCIAL STATEMENTS
and
PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS
for the year ended
December 31, 1971

March 31, 1972

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet and pro-forma consolidated balance sheet of Consolidated Computer Limited and its subsidiary as at December 31, 1971 and the consolidated statements of operations, deficit, pro-forma deficit, source and use of working capital and pro-forma source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) the consolidated balance sheet and consolidated statements of operations, deficit and source and use of working capital present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their working capital for the year then ended;

(b) the pro-forma consolidated balance sheet and pro-forma statements of deficit and source and use of working capital present fairly the financial position of the companies after giving effect to the reorganization of the companies as set forth in notes 1 and 2;

all in accordance with generally accepted accounting principles applied on a basis consistent, making due allowance for the changed circumstances described in notes 1 and 2, with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Canada

CONSOLIDATED COMPUTER LIMITED
(Now Consolidated Computer Inc.)

Consolidated Balance Sheet and Pro-Forma Consolidated Balance Sheet (Notes 1 and 2) as at December 31, 1971

Assets

	Pro-Forma	1971	1970
	$	$	$
CURRENT ASSETS			
Cash (notes 3 and 11)	2,059,831	159,831	661,603
Accounts receivable —			
Trade	495,977	495,977	718,413
Other	161,999	161,999	373,642
Estimated net proceeds on sale of subsidiary companies (note 4)	1,013,590	1,013,590	—
Inventories (note 5)	1,455,328	1,455,328	2,926,329
Prepaid expenses	7,045	7,045	66,133
	5,193,770	3,293,770	4,746,120
ASSETS HELD FOR DISPOSAL (note 6)	373,466	373,466	—
LONG-TERM ACCOUNTS RECEIVABLE	—	—	121,819
INVESTMENT IN LEASING CORPORATION (note 7)			
Shares	—	10,100	10,100
Convertible notes	—	1,686,650	—
	—	1,696,750	10,100
FIXED ASSETS (note 8)	2,241,873	1,241,873	6,711,839
DEFERRED EXPENSES — at cost, less amortization			
Debenture discount (note 9)	—	229,167	247,500
Research and development costs (note 10)	—	—	847,227
	—	229,167	1,094,727
	7,809,109	6,835,026	12,684,605

Liabilities

	Pro-Forma	1971	1970
CURRENT LIABILITIES			
Bank and other indebtedness (note 11)	—	5,134,683	4,093,355
Accounts payable and accrued liabilities (note 12)	1,918,694	7,108,233	3,853,991
Provision for costs of receivership and reorganization (note 13)	875,000	—	—
Current portion of long-term debt (note 15)	500,000	—	—
	3,293,694	12,242,916	7,947,346
LONG-TERM DEBT			
6% Series A Convertible Debentures (note 14)	—	4,384,000	5,293,000
Debentures and convertible notes (note 15)	11,294,311	—	—
	11,294,311	4,384,000	5,293,000
DEFERRED REVENUE (note 7)	—	3,988,770	—

Deficit Less Capital Stock

	Pro-Forma	1971	1970
DEFICIT (note 17)	6,780,902	22,683,749	6,397,743
CAPITAL STOCK (note 16)	2,006	8,903,089	5,842,002
	6,778,896	13,780,660	555,741
	7,809,109	6,835,026	12,684,605

SIGNED ON BEHALF OF THE BOARD

W. G. Hutchison Director

D. J. Kilgour Director

Consolidated Statement of Deficit and Pro-Forma Deficit for the year ended December 31, 1971

	1971	1970
	$	$
DEFICIT — Beginning of year	6,397,743	1,067,626
Add: Loss for the year	10,374,757	5,277,530
Provision for loss on sale of subsidiary companies (note 4)	360,474	—
Write-down of KEY-EDIT components to estimated fair market value (note 5)	501,616	—
Loss on guarantee of loan to Leasing Corporation (note 7)	1,300,000	—
Write-down of KEY-EDIT equipment to estimated fair market value (note 8)	1,777,801	—
Write-down of other fixed assets to estimated fair market value (note 8)	171,467	—
Research and development costs (note 10)	1,466,652	—
Expenses of issuing securities (note 18)	333,239	52,587
DEFICIT — End of year before Pro-Forma adjustments	22,683,749	6,397,743
Pro-Forma Adjustments		
Add: Investment in leasing corporation (note 7)	1,696,750	—
Deferred debenture discount (note 9)	229,167	—
Provision for costs of receivership and reorganization (note 13)	875,000	—
	25,484,666	6,397,743
Less: Deferred revenue (note 7)	3,988,770	—
Settlements with creditors (notes 11 and 12)	1,345,327	—
6% Series A Convertible Debentures (note 14)	4,383,999	—
Accrued interest on 6% Series A Convertible Debentures (note 14)	84,579	—
Capital stock (note 16)	8,901,089	—
DEFICIT — End of year after Pro-Forma adjustments	6,780,902	6,397,743

CONSOLIDATED COMPUTER LIMITED
(Now Consolidated Computer Inc.)

Consolidated Statement of Operations for the year ended December 31, 1971

	1971 $	1970 $
NET SALES, RENTALS AND SERVICES (note 7)	4,891,829	1,271,721
COST OF PRODUCTS AND SERVICES	3,881,745	986,929
	1,010,084	284,792
EXPENSES		
Marketing, administration and other	8,214,144	5,045,448
Amortization of research and development costs (note 10)	609,164	302,964
Interest on debentures	216,254	293,386
	9,039,562	5,641,798
Other interest expense (income) including equivalent interest (note 7)	334,994	(79,476)
	9,374,556	5,562,322
LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEM	8,364,472	5,277,530
EXTRAORDINARY ITEM		
Write-down of time-sharing equipment and inventory (note 6)	2,010,285	—
LOSS FOR THE YEAR AFTER EXTRAORDINARY ITEM	10,374,757	5,277,530
Average number of common shares outstanding (note 19)	2,114,347	1,485,922

CONSOLIDATED COMPUTER LIMITED
(Now Consolidated Computer Inc.)

Consolidated Statement of Source and Use of Working Capital and Pro-Forma Source and Use of Working Capital for the year ended December 31, 1971

	1971	1970
	$	$
USE OF WORKING CAPITAL		
Loss for the year	10,374,757	5,277,530
Less: Charges not affecting working capital —		
Depreciation	782,296	341,160
Amortization of deferred expenses	627,497	321,297
Write-down of time-sharing equipment (note 6)	780,823	—
	2,190,616	662,457
	8,184,141	4,615,073
Reduction in current assets (KEY-EDIT components and subsidiary companies) charged to deficit	862,090	—
Time-sharing inventory transferred to assets held for disposal (note 6)	216,147	—
Loss on guarantee of loan to Leasing Corporation (note 7)	1,300,000	—
Investment in Leasing Corporation (note 7)	1,686,650	10,100
Increase in fixed assets (including equipment on lease)	—	5,871,686
Deferred research and development expenditures (note 10)	1,228,589	938,841
Expenses of issuing securities charged to deficit (note 18)	333,239	52,587
	13,810,856	11,488,287
SOURCE OF WORKING CAPITAL		
Reduction in long-term accounts receivable	121,819	157,339
Equipment purchase fund	—	2,580,881
Decrease in fixed assets (including equipment on lease sold to Leasing Corporation)	1,800,259	—
Deferred revenue on sale of leased equipment (note 7)	3,988,770	—
Sale of shares (note 16)	2,152,088	2,000,002
	8,062,936	4,738,222
DECREASE IN WORKING CAPITAL	5,747,920	6,750,065
WORKING CAPITAL (DEFICIENCY) — Beginning of year	(3,201,226)	(3,548,839)
WORKING CAPITAL (DEFICIENCY) — End of year before Pro-Forma adjustments	(8,949,146)	(3,201,226)
PRO-FORMA SOURCE OF WORKING CAPITAL —		
Junior Secured Debenture Series B (note 3)	2,000,000	—
Conversion of secured liabilities into long-term debt and capital stock (note 11)	5,034,683	—
Conversion of unsecured liabilities into long-term debt and capital stock, and compromise of debt (note 12)	5,189,539	—
	12,224,222	—
PRO-FORMA USE OF WORKING CAPITAL		
Provision for costs of receivership and reorganization (note 13)	875,000	—
Current portion of long-term debt (note 15)	500,000	—
	1,375,000	—
WORKING CAPITAL provided by Pro-Forma adjustments	10,849,222	—
WORKING CAPITAL (DEFICIENCY)—End of year after Pro-Forma adjustments	1,900,076	(3,201,226)

CONSOLIDATED COMPUTER LIMITED

Notes to the Consolidated Financial Statements and Pro-Forma Consolidated Financial Statements for the year ended December 31, 1971

1. RECEIVERSHIP AND REORGANIZATION

On November 3, 1971, the Parent Company filed a proposal to its creditors under the Bankruptcy Act and subsequently prepared for its secured creditors and debentureholders and shareholders a plan of compromise or arrangement under the Companies' Creditors Arrangement Act and an arrangement under The Business Corporations Act (collectively the "plan of reorganization"). The plan of reorganization was approved by the ordinary creditors, secured creditors, debentureholders and shareholders; approval by the Supreme Court of Ontario was obtained on March 16, 1972.

Subsidiary Companies were not affected by the reorganization.

The effects of the plan of reorganization have been reflected in the pro-forma consolidated balance sheet as at December 31, 1971.

In subsequent financial statements all figures will be compared to the pro-forma consolidated balance sheet.

By Articles of Amendment dated March 28, 1972, the name of the company was changed to Consolidated Computer Inc.

2. BUSINESS OPERATIONS

As a result of the reorganization of the company, certain operating changes have been effected. The major changes are:

(a) The immediate sale of all the company's time-sharing bureau operations and the immediate discontinuance of its marketing and leasing of time-sharing systems (see note 6).

(b) The sale of the assets of its United Kingdom subsidiary and the shares of its West German subsidiary (see note 4).

(c) A change in its strategy of marketing KEY-EDIT systems in North America.

(d) The discontinuance of its lease financing arrangement with Consolidated Computer Leasing Corporation and the acquisition of KEY-EDIT systems in North America held by Consolidated Computer Leasing Corporation. (see notes 7 and 8).

With the exception of (d) above (which has been reflected in the pro-forma consolidated balance sheet,) the effects of these changes have been reflected in the financial statements for the year ended December 31, 1971.

Because of the changes described above and in note 1, certain assets have been written down to estimated fair market value.

3. FINANCING

The plan of reorganization and the ongoing operations of the company are being financed by a term bank loan of $2,000,000 jointly and severally guaranteed by agencies of the Federal and Ontario Governments. A Junior Secured Convertible Debenture Series B in the principal amount of $2,000,000 has been issued by the company as collateral security for the term loan (see note 15).

In addition to other securities received under the plan of reorganization (see note 7) the government agencies, as sponsors of the plan and as guarantors of the new financing, received 600,000 common shares (new) (see note 16). The receipt of the cash and issue of the shares and the $2,000,000 debenture have been reflected in the pro-forma consolidated balance sheet as at December 31, 1971.

4. PRINCIPLES OF CONSOLIDATION

The consolidated balance sheet and the pro-forma consolidated balance sheet as at December 31, 1971 include Consolidated Computer Limited and its wholly-owned United States subsidiary. The consolidated statements of operations, deficit and source and use of working capital for the years ending December 31, 1971 and 1970 and the consolidated balance sheet as at December 31, 1970, include Consolidated Computer Limited and its wholly-owned subsidiaries in the United States, the United Kingdom and West Germany.

In the first quarter of 1972, the company sold the assets of its United Kingdom subsidiary and the shares of its West German subsidiary and, accordingly, the assets and liabilities of these subsidiaries are not included in the consolidated balance sheet as at December 31, 1971. However, the estimated net proceeds to the company of these sales are disclosed under the caption "Estimated net proceeds on sale of subsidiary companies".

The amount of investments in and advances to these subsidiaries not recoverable from the sale proceeds, including a provision for loss on operations of these subsidiaries from January 1, 1972 to the date of the sale, has been charged to deficit.

5. INVENTORIES

Inventories are classified as follows:

	1971	1970
	$	$
Components	1,080,021	2,128,183
Work in process	173,950	413,128
Field service stock	201,357	385,018
	1,455,328	2,926,329

Inventories include only materials and partially completed systems for use in the company's KEY-EDIT operations and are valued at the lower of cost or estimated fair market value. As a result of the change in marketing strategy referred to in note 2(c) certain components have been written down to estimated fair market value; this write-down, amounting to $501,616 has been charged to deficit.

6. ASSETS HELD FOR DISPOSAL

Assets of the company related to the time-sharing operation have been written down to an estimated fair market value of $373,466 including equipment of $157,319 and inventory of $216,147.

The write-down of $2,010,285, including equipment of $780,823 and inventory of $1,229,462, has been charged to operations as an extraordinary item because the company had decided to reduce its involvement in the time-sharing business prior to the reorganization.

7. INVESTMENT IN LEASING CORPORATION

In December 1970 the company's United States subsidiary in co-operation with a major United States financial institution, formed Consolidated Computer Leasing Corporation ("Leasing Corporation"). The financial institution purchased 8,000 common shares for $40,400 and the subsidiary purchased 2,000 common shares for $10,100. Leasing Corporation agreed to purchase from the company subsidiary up to $15 million (U.S.) of equipment at list price. The company's U.S. subsidiary was obligated to lease such equipment back from Leasing Corporation for a one-year period (with annual renewals at the option of the subsidiary) for sublease to customers in the United States and Canada. While the subsidiary was to receive the full list price in cash, it was at the same time obligated to invest an amount equal to 20% of the sale price in Leasing Corporation by purchasing 20-year 6% notes convertible six years after issue at the rate of ten shares per $1,000 of notes.

Under the loan agreement the financial institution had advanced $6,745,572 (U.S.) to Leasing Corporation collateralized by the equipment, rentals on leases related thereto and a guarantee by the company and its U.S. subsidiary, supported by a first-floating charge on the company's assets (subject to prior charges), of 25% of the outstanding loans.

On December 31, 1971, the financial institution advised the company that the company was in default of certain requirements under the loan agreement and the company became liable under the aforementioned guarantee.

Prior to that time the U.S. subsidiary had sold equipment previously leased with a list price of $8,431,964 to Leasing Corporation and had invested $1,686,650 of the proceeds received in Leasing Corporation in the form of the aforementioned convertible notes.

Subsequent to December 31, 1971, an agency of the Federal Government assumed the security position and interests of the financial institution. In full satisfaction and discharge of the security position and interests assumed, and for arranging for the title to the KEY-EDIT systems held by Leasing Corporation to be re-acquired by the company (see note 8) the Federal Government agency received 565,000 common shares (new), 60,000 non-voting convertible special shares, Convertible Notes Series I for $1,300,000 and Secured Debentures Series Two for $1,000,000. (See notes 11, 15 and 16).

Transactions referred to above which occurred subsequent to December 31, 1971, have been reflected in the pro-forma consolidated balance sheet as at December 31, 1971.

For accounting purposes during 1971, the entire gross profit on the sales of KEY-EDIT equipment sold to Leasing Corporation was deferred. Amounts thus deferred were included in the results of operations by including in revenue, lease rentals as they were billed monthly and by including in expenses:

(a) depreciation calculated and disclosed as though the company still owned the equipment; and

(b) interest equivalent to that charged by the financial institution to Leasing Corporation as though the company were borrowing the funds directly to finance the leased equipment sold.

Because the company has re-acquired title to these systems subsequent to December 31, 1971, the amounts deferred as outlined above have been credited to the pro-forma deficit account.

The company surrendered its interest in Leasing Corporation to the financial institution and the investment therein has been charged to the pro-forma deficit account.

8. FIXED ASSETS

Fixed assets are classified as follows:

	Pro-Forma	1971	1970
	$	$	$
Plant equipment	376,588	376,588	318,583
KEY-EDIT equipment	243,798	243,798	2,624,074
KEY-EDIT equipment on lease	1,400,000	400,000	3,505,883
Furniture and fixtures	164,044	164,044	208,748
Leasehold improvements	57,443	57,443	54,551
	2,241,873	1,241,873	6,711,839

Fixed assets are valued as follows:

Plant equipment — at cost, less depreciation of $46,116.

KEY-EDIT equipment and equipment on lease — at estimated fair market value; the pro-forma value reflects the re-acquisition of systems owned by Leasing Corporation at their estimated fair market value of $1,000,000 (see note 7).

Furniture and fixtures — at depreciated cost, less a provision to reflect the expected loss on disposal of those items no longer required because of the reduced scope of operations.

Leasehold improvements — at cost, less amortization (all leasehold improvements related to vacated premises have been written off).

Adjustments, other than normal depreciation, to the original cost of fixed assets have been charged to deficit.

Fixed assets will, in future, be written off on the following bases:

Classification	Method	Term
Plant equipment	Straight-line	10 years
KEY-EDIT equipment	Straight-line	3 years
KEY-EDIT equipment on lease	Straight-line	3 years
Furniture and fixtures	Straight-line	10 years

All new KEY-EDIT systems placed in the field after January 1, 1972, will be valued at cost and depreciated over five years on a straight-line basis.

KEY-EDIT equipment for the year ending December 31, 1970 and 1971 was depreciated on a 7 year straight-line basis.

9. DEFERRED DEBENTURE DISCOUNT

Deferred debenture discount was being amortized over the life of the 6% Series A Convertible Debentures. Under the terms of the re-organization the debentures have all been converted (see note 14), consequently, the unamortized portion of the deferred debenture discount as at December 31, 1971 has been charged to the pro-forma deficit account.

10. RESEARCH AND DEVELOPMENT COSTS

	1971	1970
	$	$
Deferred at beginning of year	847,227	211,350
Costs incurred during year	2,317,692	1,167,294
Recoverable in the form of government grants	(1,089,103)	(228,453)
	2,075,816	1,150,191
Amortized during year	609,164	302,964
	1,466,652	847,227
Charged to deficit	1,466,652	—
Deferred at end of year	—	847,227

During the year ending December 31, 1971 and in prior years, research and development costs were being amortized over four years on a straight-line basis. Because of the reorganization of the company and its consequent reduction in marketing operations, the company is unable to determine the value of deferred research and development costs. Accordingly, the balance has been written off to deficit.

Future research and development costs will be charged to operations in the year in which they are incurred.

11. SECURED CREDITORS

On February 29, 1972 the secured creditors (including the government agency which had assumed the company's guarantee of advances by a financial institution to the Leasing Corporation) of the company accepted an arrangement under the Companies' Creditors Arrangement Act.

The following cash and securities in the company have been issued in settlement of the secured claims and for the release of all prior security rights:

	$
Cash	100,000
Secured Debentures Series One	700,000
Junior Secured Convertible Debentures Series A	500,000
Junior Secured Debentures Series C	800,000
Convertible Notes Series I	1,300,000
Convertible Notes Series II	1,900,000
For details of interest, security, maturity, and conversion features see note 15.	
	Shares
Common Shares (new)	355,000
Convertible Special Shares	60,000
See note 16	

12. UNSECURED CREDITORS

On January 25, 1972, the unsecured creditors of the company whose claims at November 3, 1971 totalled $5,836,958 accepted a proposal under the Bankruptcy Act whereby that part of each claim which was less than $100,000 will be settled by (i) cash payments in 1972 totalling thirty cents on the dollar or (ii) issue of an unsecured convertible note for 100% of the claim and one common share (new) of the company for each $10 of the amount of the notes issued, at the election of the creditors if made before April 16, 1972 or at the election of the company after that date. All creditors will receive the notes and shares for that part of their claim exceeding $100,000.

On the basis of elections filed by the unsecured creditors and by the company, it is estimated that the total claim will be settled as follows:

Cash	$ 647,419
Convertible Notes Series II (note 15)	$3,594,311
Common shares (new) (note 16)	359,431

Cash payments are to be made in June, July and August of 1972 and, accordingly, are not reflected as a reduction in cash on the pro forma consolidated balance sheet.

13. PROVISION FOR COSTS OF RECEIVERSHIP AND REORGANIZATION

Expenses related to the receivership and sundry expenses related to the reorganization and change in the operations of the business estimated at $875,000 have been charged to the pro-forma deficit account.

14. 6% SERIES A CONVERTIBLE DEBENTURES

These debentures were convertible into common shares (old) of the company at a rate of 145 shares for each $1,000 debenture.

On February 29, 1972, the debentureholders accepted an arrangement under the Companies' Creditors Arrangement Act which required each $1,000 of debentures outstanding at February 28, 1972 to be exchanged for 110 common shares (new) and 100 non-voting convertible special shares (see note 16).

Interest was accrued on the debentures from June 16, 1971 to November 3, 1971, and was charged to operations. Because the interest will not be paid under the reorganization it has been credited to the pro-forma deficit account.

15. DEBENTURES AND CONVERTIBLE NOTES

Principal amount $	Interest	Description	Security	Maturity	Conversion feature
	None	Secured Debentures	First-floating charge debenture (see (i) below)		None
700,000		Series One (note 11)		1972 $300,000 1973 450,000	
1,000,000		Series Two (note 7)		1974 350,000 1975 350,000 1976 250,000	
1,700,000					
		Junior Secured Debentures	Floating charge subject to Secured Debentures		
500,000	None	Series A (note 11)		20% per annum of principal amount outstanding on December 31, 1975.	$5 per common share until December 31, 1975.

Principal amount	Interest	Description	Security	Maturity	Conversion feature
$					
2,000,000	Prime +½%	Series B (note 3)		$300,000 per year commencing December 31, 1973 and the balance December 31, 1976. Principal repayments will be reduced by interest paid from March 28, 1972.	$5 per common share until December 31, 1975.
800,000	None	Series C (note 11)		1972 $100,000 1973 250,000 1974 150,000 1975 150,000 1976 150,000	None
3,300,000					
		Convertible Notes	None		
1,300,000	None	Series I (note 11)		1972 $100,000 1973 300,000 1974 200,000 1975 200,000 1976 200,000 1977 200,000 1978 100,000	$5 per non-voting convertible special share until December 31, 1975.
5,494,311	9% per annum from January 1, 1976	Series II (notes 11 and 12)		15% per annum of principal amount outstanding on December 31, 1975 payable on December 31 of each year from 1975-1980 and the balance on December 31, 1981.	$5 per non-voting convertible special share until December 31, 1975.
6,794,311					
11,794,311					
500,000	Current portion				
11,294,311					

In the event of default of re-payment of principal on any of the above debt, interest begins to accrue at 9% per annum.

(i) Under the terms of the Secured Debenture Indenture the company is in default if it does not meet at least two of the three following conditions after June 1, 1972:

(a) The sum of acceptable receivables, firm orders to be invoiced within thirty days and cash balances of the company will be not less than $500,000.

(b) The sum of acceptable receivables, firm orders to be invoiced within sixty days and cash balances of the company will be not less than $800,000; and

(c) The sum of acceptable receivables, firm orders to be invoiced within ninety days and cash balances of the company will be not less than $1,100,000.

In addition, the company may not declare or pay any dividends or make any other distributions to its shareholders or acquire or otherwise redeem any shares of its capital stock or make any pre-payments (other than mandatory pre-payments) on any junior debt.

16. CAPITAL STOCK

During the year ended December 31, 1971, 314,012 common shares (old) were issued for $2,152,088 cash and $909,000 of 6% Series A Convertible Debentures were converted into 131,805 common shares (old).

As at December 31, 1971, the authorized capital of the company consisted of 4,000,000 shares without par value of which 2,256,791 were issued and fully paid.

Options and warrants to purchase common shares (old) at December 31, 1971 were outstanding as follows:

	Number of shares (old)	Price per share (old)	Year of expiration
Warrants and employee stock options	90,000	\$3.82 - \$10.00	1974-1976

Subsequent to the year-end certain warrant holders agreed to relinquish their rights to purchase 52,000 shares of common stock (old) of the company.

PRO-FORMA CAPITAL STOCK

In compliance with the approved reorganization (see note 1) the company applied for and was granted Articles of Amendment dated March 28, 1972 altering the capital structure of the company as follows:

(a) Consolidating, converting and reclassifying all the 4,000,000 issued and unissued common shares without par value of the company into 400,000 common shares without par value and 666,667 non-voting convertible special shares without par value on the basis that each thirty common shares (old) be converted into three common shares (new) and five non-voting convertible special shares.

(b) Increasing the authorized capital of the company by creating 2,850,000 additional common shares without par value and 1,583,333 additional non-voting convertible special shares without par value in order to bring the aggregate authorized capital stock of the company to 3,250,000 common shares without par value and 2,250,000 non-voting convertible special shares without par value.

The non-voting convertible special shares are preferred as to the first 10c per share dividend declared in any one year; thereafter the common shares are entitled to the next 10c of dividend declared in any one year; and thereafter in any one year the two classes of shares participate equally in dividends declared.

From the earlier of (i) December 31, 1975 and (ii) a date that the company shall designate in writing to the registrar for the non-voting special shares, the holders of non-voting special shares shall be entitled to convert any or all of the non-voting special shares held by them into common shares (new) of the company on a share-for-share basis.

(c) Reducing the issued capital as at December 31, 1971 to the nominal amount of \$2,000.

The following shares have been issued (at nominal values) and reserved as a result of the reorganization and are reflected in the pro-forma consolidated balance sheet as at December 31, 1971:

	Issued		Reserved for conversion	
	Common	Special	Common	Special
Secured Creditors (note 11)	355,000	60,000	100,000	640,000
Sponsors of reorganization and guarantors of new financing (note 3)	600,000		400,000	
Re-acquisition of KEY-EDIT systems from Leasing Corporation (note 7)	560,000			
Unsecured Creditors (note 12)	359,431			718,862
6% Series A convertible debentureholders (note 14)	482,240	438,400		
Shareholders (old)	225,679	376,100		
Available for employee options and other purposes			167,650	16,638
	2,582,350	874,500	667,650	1,375,500

Under the terms of the Junior Secured Debenture Indenture and Convertible Note Indenture the company has covenanted that it will not increase its authorized capital prior to December 31, 1975 without the prior approval of the holders of the junior secured debentures and convertible notes, otherwise than for the purpose of:

(a) Making not more than an additional 300,000 common shares available for issue upon exercise of stock options now or hereafter granted to employees, and

(b) Making available, whenever the special shares become convertible into common shares, sufficient authorized common shares for the purpose of providing for such conversion.

17. INCOME TAXES

At December 31, 1971, the company had approximately \$17,500,000 of losses carried forward (including \$2,700,000 of excess undepreciated capital cost) which can be applied to future profits and, thereby, reduce future income taxes. This amount could be increased by approximately \$3,000,000 and/or decreased by approximately \$5,750,000 depending on rulings given by the Canadian and American income tax authorities.

18. EXPENSES OF ISSUING SECURITIES

Expenses of issuing securities for the year ended December 31, 1971 include approximately $300,000 related to a planned issue of securities.

19. LOSS PER COMMON SHARE

Because of the reorganization of the company the loss per common share (old) and pro-forma loss per share (new) figures are not considered meaningful and consequently have not been presented in these financial statements.

20. CONVERSION OF FOREIGN CURRENCY

Assets and liabilities in foreign currencies have been converted to Canadian funds at approximately the year-end rates of exchange. No significant profit or loss resulted from this conversion.

21. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid to directors and senior officers as defined by The Business Corporations Act of Ontario for the year was $297,082.

22. LEASE COMMITMENTS

Total rentals paid for the year ended December 31, 1971 and the total of future commitments (excluding tax and like expenses) are:

	$
Year ended December 31, 1971	502,065
January 1, 1972 to December 31, 1976	1,494,398
January 1, 1977 to May 31, 1981	1,137,039

Costs and penalties incurred to terminate existing leases for premises no longer required have been included in the provision for costs of receivership and reorganization charged to deficit.

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